

**MINUTES OF THE TREASURY OVERSIGHT COMMITTEE  
ORANGE COUNTY, CALIFORNIA**

**INFORMAL MEETING**

June 30, 1999

An Informal Meeting, due to the absence of two of the Treasury Oversight Committee (TOC) members, was held on June 30, 1999 and called to order by Robert Fauteux, Chair, at 3:00 p.m.

<u><b>PRESENT:</b></u>	<b>Committee Members :</b> Robert Fauteux, Chair John Dean	<u><b>ABSENT:</b></u> Jan Mittermeier David Sundstrom
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Also present were:

John Moorlach, Treasurer-Tax Collector; Dick Hilde, Assistant Treasurer; Dan Puglia, Accountant; Joanne Guerriero, Secretary; John Nelson, Department of Education; Gary Burton, CFO; Chuck Hulse, Chief Deputy Auditor-Controller; Dana Swart & Lily Chin, Internal Audit; Ann Fletcher, County Counsel and Allan Beek, Public

**1. Meeting Called to Order**

Robert Fauteux called the meeting to order.

**2. Welcome and self-introductions**

Introductions were made.

**3. Public Comments**

None

**4. Approval of Minutes**

The Minutes of the November 4, 1998, and the March 24, 1999 meetings were tabled for the next meeting due to lack of a quorum. The Minutes of the March 24 meeting were corrected to delete the words "out of" in Item 7, Internal Audit, page 3.

**5. Treasurer's Report**

Mr. Moorlach began his report by stating his staff is still working on the "white paper." He is reviewing the first draft.

Both he and Mr. Hilde attended the CACTTC Annual June Conference in Pleasanton, CA, and felt it was a productive session.

Serrano Water District has become the first voluntary outside participant to join the County's pool. Their request was approved by the Board of Supervisors on June 22 and generated a lot of press. It was very favorable and encouraging. There are two other water districts also interested in joining the pool.

On the legislative front, Mr. Moorlach presented an update from his last report to the Committee in March.

C The provision regarding Section 27063 is still in Senate Bill 275, the Local Government Omnibus Bill, and is progressing.

C We submitted a proposal for the Oversight Committee, whose members cannot work with financial firms for three years after termination from the Committee, be changed to one year. It was put into AB 323 and did so well it has already been signed by the Governor. It is specific as to the types of firms that members can't work for. Specifically those that are doing business with the County. The effective date is January 1, 2000. Dr. Dean asked if that date would delay looking for a new member to join the Committee. Mr. Moorlach stated that it would not and that it might enhance it further, explaining a new member would be under the current ruling until the change takes effect in January.

C The provisions that Mr. Moorlach has been pursuing on Commercial Paper (AB 343), as it relates to eliminating the WAM restriction, broadening the limitation from 30% to 40%, and adding a rather strict diversification provision (for the first time in the Code), passed through the Assembly's two committees without opposition and on the floor, 76-0.

Mr. Moorlach stated he had to testify before the Senate Local Government Committee two weeks ago because of some opposition to AB 343. The cities were opposed. He explained that they don't have oversight committees or much in the way of professional staff like the counties do. He told the Senate Committee that the issue is oversight and suggested that they give the cities oversight committees instead of hindering everybody. They decided to write legislation that will exclude cities. We are trying to get a "jockey" who could take it to the Senate floor, hopefully this week, get the necessary votes and put it on the Governor's desk.

C The other provision we were pursuing is the definition of a Medium Term Note (MTN), an investment vehicle we use quite extensively. When we proposed a better definition, L.A. County also wanted to include the definition of a Guaranteed Investment Contract (GIC). That muddled the water when it got into the Local Government Omnibus Bill so it has been dropped. We will try to pursue it without adding an amendment to it next year.

C Due to a lot of the borrowing that occurred in Orange County without full discussion by the Board of Supervisors, there was a code provision that stated all borrowing by the County would have to be approved by the Board unless it was under \$100,000.

County Counsel determined that overdrafts were borrowing, and we cannot give enough notice to convene a Board meeting to approve an overdraft because they do not usually happen in a scheduled manner. We also have daylight overdrafts because of electronic processing that might be upside down for a few hours, and then we get it taken care of. We included that in the omnibus bill. It was pulled out so we added it as an amendment to AB 343 and have argued that quite successfully with the Senate Local Government Committee. It should not be a problem.

Mr. Moorlach further reported we are now getting geared up to presenting our proposals for next year at the next legislative session. We will probably come in with even a stronger and bigger package of investment related changes.

Since our last meeting, we have added some updates in our monthly report, including benchmarks, notification of our basis point reduction, and our support of AB 1423, which is something our new State Treasurer Phil Angelides has introduced. He wants all local municipalities to submit a copy of their portfolios to the California Debt and Advisory Committee twice a year. Mr. Moorlach stated since cities don't have oversight, and because he believes in good disclosure, he has taken a strong support position on that piece of legislation. We have already started sending Mr. Angelides copies of our reports. We are in the middle of our June report, and he offered to provide the members with a rough draft of our annual letter if they would like to see it after the meeting. Mr. Fauteux asked if there were any questions. There were none.

## **6. Chairman's Report**

Mr. Fauteux stated he wanted to comment on Serrano Water District joining the County pool. He asked Mr. Moorlach if the L. A. Times carried the entry of Serrano into the pool. Mr. Moorlach responded they were the first to run the article on Wednesday, June 23. The Register reacted the following day and The Daily Pilot on Friday, without interviewing him. They followed up with another unique article on Saturday. The following Monday an article ran in the Register's Political Buzz column and in the Bond Buyer. It was all pretty favorable and seemed to be a milestone. Dr. Dean asked what the advantages are of the water district joining the pool. Mr. Moorlach explained we currently compare ourselves to rated money market funds that are institutional in the private sector, with a billion and a half or more in assets, and are considered first tier, meaning they have an asset allocation composition very similar to ours. When we rank ourselves against the top 20 -25 funds, we are number one. We outperformed the number two fund by 12 basis points for the month of May. The material given to the press is available if the members would like to see it. Serrano is going to get a very well run and a very closely scrutinized portfolio with two levels of oversight, a very attractive yield and a very low expense ratio, one of the lowest in the industry. They are going to get a very competitive yield and theoretically, as we progress, if we were able to bring in some very large sums of money over time, it would also reduce our expense ratio further. Mr. Fauteux asked if there were any further comments. There were none.

**7. Elect the Chair and Vice Chair**

Election of chair and vice chair deferred due to lack of a quorum.

**8. Basis Point Calculation**

Carried over from the last agenda in error.

**9. Bylaws**

A. Mr. Fauteux inquired about adding an appendix stating the TOC members have to approve the Bylaws. Mr. Swart explained it was discussed at the March 24, 1999 meeting as part of the Internal Audit Report. The response to Internal Audit's recommendation by the Treasurer was to propose an appendix recommending setting forth the requirements and restrictions for members. The Government Code would be included into the bylaws, and the members would make a declaration on an annual basis that they will abide by the bylaws.

B. Mr. Fauteux advised adding another public member will also be deferred to the next meeting due to lack of a quorum. He asked if Mr. Moorlach was going to appoint someone from the outside. Mr. Moorlach responded that he hasn't selected anyone or has any idea who to select at this time. He suggested discussing it later with Mr. Fauteux and is looking at a January time line.

C. Mr. Fauteux advised adding a rule stating TOC members are in compliance with the requirements in Rules 11 through 13 of the Bylaws, as it relates to the item he wrote to the Committee on April 5, 1999, specifying when to make our declarations. Discussion on this item will be carried over to the next meeting. Questions to think about: Do we want to do a one time initial signing off when a member joins the Committee? Do we want to do an annual signing? His own preference is to do it once. Mr. Moorlach asked what data base the bylaws are created on. Mr. Fauteux stated it was on his Windows/Word. Mr. Moorlach suggested bringing a diskette to Ms. Guerriero and she can insert the changes in the language in bold.

D. AB 323 was previously discussed in Mr. Moorlach's Treasurer's Report.

Mr. Fauteux asked for any comments on the bylaw changes. He asked Ms. Fletcher if she had anything to add. She responded she has already reviewed the recommended changes and has no other recommendations. Dr. Nelson asked if the revisions in the bylaws include the three to one year change. Mr. Fauteux responded the language will be amended. Dr. Nelson asked if the changes go into effect January 1. Mr. Hilde responded that we are anticipating the Bylaws won't change until January.

**10. IPS Update Status**

Mr. Moorlach reported discussions are still being held on getting closer to an intermediate fund using a NAV approach. The Money Market Investment Policy Statement may have some

changes based on legislation that passes, in particular AB 343. Each year we try to get those reviews completed and approved by the Board of Supervisors in December or January. Mr. Hilde added the TOC will meet again in September and hopefully by then new legislation will be signed so we may not have to meet again before we take it to the Board. Mr. Moorlach stated we may call an urgency board meeting if we want to start our intermediate fund sooner for IWMD. Dr. Nelson inquired how an intermediate fund is going to be defined. Mr. Moorlach responded it is basically going to be the same as our money market fund but will have longer weighted average maturity limits. Dr. Nelson further asked if Mr. Moorlach will be able to talk about the issues to the Schools, and will a percentage of the pool be put in the intermediate fund so individuals do not have to make a decision on that. Mr. Moorlach stated he would prefer that we modify our money market IPS for the schools. A percentage of the pool can go into the intermediate fund. Dr. Nelson stated the schools would find that very favorable. Mr. Hulse asked what period of time Mr. Moorlach is thinking about. Mr. Moorlach responded it could be a maximum three-year duration but an average could be 270 days. Those are still some of the fine points being debated. Mr. Moorlach feels we are getting closer. We have been debating this issue for four years. He would like to see some closure at the next TAC meeting scheduled for August 25.

## **11. Public Comments**

Allan Beek asked about the "white paper." The public is eagerly waiting to see if there is going to be a "white paper" or if that subject has become moot with Steve Lewis's departure. (Mr. Beek arrived after Mr. Moorlach gave his Treasurer's Report.) Mr. Moorlach responded the draft has been prepared and is being reviewed. Mr. Beek stated he wants to understand the issue better.

Mr. Moorlach took this opportunity to comment on the very successful Treasurer's Conference he held last February. We are in the planning stages for next year's conference scheduled for February 3, 2000 at the DoubleTree Hotel in Costa Mesa. The host committee met yesterday. Mark Baldassare has signed up as a speaker to give our outlook of the community. Rudy Handley, CEO of the FTCU will speak about how best to service the customer. We are still waiting for Dr. Michael Boskin to confirm as our luncheon keynote speaker. He is with the Hoover Institute and was the Economic Advisor to President George Bush. We invited the President of Lincoln-Mercury to talk about why they moved to Orange County. We are working on a track for cash management working with your banks, and how to select and work with your broker-dealers. We have also had a good response on sponsorships. Mr. Moorlach plans to have a panel on school board issues, and the agenda is close to being ready. His goal is to try to get announcements out in late September. He thanked Dr. Nelson for serving on last year's committee and offering a lot of good constructive criticism. Mr. Fauteux stated the conference is a positive event. Dr. Nelson added it is a positive group to pull together to get us all back working with the taxpayers as a team. By the time of next year's conference, hopefully the distributions will have taken place and it will be easier for people to rethink the past and look forward to the future.

**12. Schedule Next Meeting Date**

Mr. Fauteux advised since we don't have a quorum and there is no requirement for a certain number of meetings per year, we will carry over the data from today's informal meeting. He then directed Ms. Guerriero to send a note to the absent members. He stated if there were no further comments, the unofficial, informal meeting is adjourned.

The next regular meeting was scheduled to be held on September 29, 1999 in the Treasurer's Office, Conference Room A, 3:00 p.m.

**13. Adjournment**

Mr. Fauteux adjourned the meeting at 3:35 p.m.